

## **Significant differences between NYSE listing standards and Nidec's corporate governance system**

Companies listed on the NYSE must comply with certain standards regarding corporate governance under Section 303A of the NYSE Listed Company Manual. However, listed companies that are foreign private issuers, such as Nidec (hereinafter, called the "Company") are permitted to follow their home country's laws and practices except certain requirements under Section 303A, taking into account the recent changes and developments of the laws and systems relating to corporate governance reflecting their home country's legal system, environment, culture and characteristics. The following shows the significant differences between the corporate governance practices followed by NYSE-listed U.S. companies under Section 303A of the NYSE Listed Company Manual and those followed by the Company, which such foreign issuers are required to disclose under the NYSE rules.

< Certain corporate governance standards followed by NYSE-listed U.S. companies >

- A NYSE-listed U.S. company must have majority of directors meeting the independence requirements under Section 303A of the NYSE Listed Company Manual.
- A NYSE-listed U.S. company must have an audit committee, nominating committee and compensation committee, each of which must be composed entirely of independent directors and the audit committee must have at least three members.
- A NYSE-listed U.S. company must, in general, obtain the shareholders' approval with respect to any equity compensation plan.

The Company has established its corporate governance system in accordance with the Commercial Code and other related regulations in Japan (collectively, the "Commercial Code") which have been amended in recent years with the aim of creating a more effective corporate governance system.

< Company's corporate governance system as it differs from the NYSE listing standards >

- The Japanese Commercial Code has provisions for an "outside director," whose definition is similar to an independent director under the NYSE Listed Company Manual. An "outside director" is defined as a director who does not engage in the execution of business, and who does not serve or has not served as an executive director, manager or in any other capacity as an employee of the company or its subsidiaries. A Japanese joint stock corporation (kabushiki kaisha), such as the Company, is not obliged under the Commercial Code to have any outside director on its board of directors, and is required only to disclose whether each director is an outside director or not. The Company had no (0) Outside Directors as of June 23, 2004.

- A Japanese joint stock corporation is not required to have any of audit, nominating and compensation committees, except for a "joint stock corporation with specified committees," which is a new corporate governance system that started in April 2003 and which may be adopted by a Japanese joint stock corporation above a certain size.

- Most Japanese joint stock corporations, including the Company, employ a corporate governance system based on corporate auditors, where the tasks of supervising the administration of the company's affairs are assigned not only to the board of directors but also to corporate auditors who are appointed at a general meeting of shareholders, and are separate and independent from the board of directors. Each of the corporate auditors sitting on the board of corporate auditors has a duty to supervise the administration of the company's affairs by directors.

- Pursuant to the Commercial Code, if a Japanese joint stock corporation, such as the Company, desires to adopt an equity compensation plan under which stock acquisition rights are granted on specially favorable conditions (except where such rights are granted to all shareholders on a pro rata basis), such plan must be approved by a "special resolution" of a general meeting of shareholders that satisfies the prescribed quorum. (In the case of the Company, such quorum is one-third of the total number of voting rights and the approval of at least two-thirds of the voting rights represented at the meeting is required as provided by the Company's Articles of Incorporation pursuant to the Commercial Code.)

### **Board of Directors**

The Board of Directors of the Company is currently comprised of fourteen (14) Directors elected at a general meeting of shareholders. The Board of Directors has a legal obligation under the Commercial Code to make decisions on the administration of the Company's affairs and supervise the execution of the Company's business by the Directors. The term of office for Directors is one year.

### **Code of Ethics for Directors and Executive Officers**

The U.S. Sarbanes-Oxley Act of 2002 requires disclosure in a Securities and Exchange Commission (the "SEC") -reporting company's annual reports filed with the SEC whether it has adopted a code of ethics for its principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions. If the company has not adopted such a code, it must disclose why it has not done so.

Nidec has adopted a written code of ethics as outlined below to its chief executive officer, chief

financial officer, chief accounting officer and other senior officers, which has been effective as of April 1, 2004.

#### Code of Ethics (Abstract)

- (A) This code of ethics (this "Code of Ethics") shall be applied to its Chief Executive Officer, Chief Financial Officer(CFO) and Chief Accounting Officer(CAO) as well as all other directors, officers and employees of the Company ("Covered Persons"). Covered Persons must make effort to:
- a) Promote honest and ethical conduct, including the ethical handling of conflicts of interest,
  - b) Promote full, fair, accurate, timely and understandable disclosure,
  - c) Promote compliance with applicable laws and governmental rules and regulations, and
  - d) Deter wrongdoing.
- (B) Each Covered Person owes a duty to the Company to act with integrity. Integrity requires, among other things, being honest and candid. Deceit and subordination of principle are inconsistent with integrity.
- (C) Each Covered Person must:
- a) Act with integrity, including being honest and candid while still maintaining the confidentiality of information where required or consistent with the Company's policies,
  - b) Observe both the form and spirit of laws and governmental rules and regulations, accounting standards and Company policies, and
  - c) Adhere to a high standard of business ethics.

#### **Corporate Auditors and Board of Corporate Auditors**

Starting on July 31, 2005, when the requirements of Rule 10A-3 under the U.S. Securities Exchange Act of 1934 relating to listed company audit committees become applicable to foreign private issuers, the Company expects to rely on an exemption under that rule which is available to foreign private issuers with boards of corporate auditors meeting certain criteria.

The Company maintains the Corporate Auditors and Board of Corporate Auditors in accordance with the Commercial Code, the details of which are as follows:

- A corporate auditor must be elected and/or dismissed at a general meeting of shareholders. The Company's Board of Directors must obtain the consent of its Board of Corporate Auditors in order to submit a proposal for election and/or dismissal of a Corporate Auditor to a general meeting of shareholders. Each of the Corporate Auditors has the right to state his/her opinion concerning the election and/or dismissal of any Corporate Auditor, including himself/herself, at a general meeting of shareholders. Each Corporate Auditor has a four-year term.

- Under the Commercial Code, the Company is required to have at least one "Outside Corporate Auditor" who must meet independence requirements under the Commercial Code. An "outside corporate auditor" is defined as a corporate auditor who has not served as a director,

executive officer, manager or in any other capacity as an employee of the company or any of its subsidiaries for the last five years prior to the appointment.

- Corporate Auditors are obliged to attend the meetings of the Board of Directors and express their opinion at the meetings if necessary. A Corporate Auditor has a statutory duty to supervise the administration of the Company's affairs by Directors. The Board of Corporate Auditors is required to submit its audit report to the Representative Director of the Company each fiscal year. A copy of the audit report is included in the notice of an ordinary general meeting of shareholders.

- A Corporate Auditor also has a statutory duty to examine the financial statements of the Company and the Board of Corporate Auditors receives audit reports from an accounting auditor (a certified public accountant or an accounting firm). The Board of Corporate Auditors has the right to request that Board of Directors submit a proposal for dismissal of an accounting auditor to a general meeting of shareholders. The Board of Corporate Auditors also has the right to directly dismiss an accounting auditor under certain conditions. The Company's Board of Directors must obtain a consent of its Board of Corporate Auditors in order to submit a proposal for election and/or dismissal of an accounting auditor to a general meeting of shareholders.

- A Corporate Auditor as well as a Director will be liable to the Company for damages resulting from his/her acts and/or omissions in violation of the Commercial Code. Shareholders of the Company have the right to bring a shareholders' derivative action against Corporate Auditors on behalf of the Company, upon satisfying requirements of the duration of such shareholding.

- The Company currently has four (4) Corporate Auditors, two (2) of whom are Outside Corporate Auditors.

### **Evaluation and remuneration of Directors and Executive Officers**

- The maximum total amounts of remunerations for the Company's Directors and the Company's Corporate Auditors must be, and accordingly have been, approved, respectively, at a general meeting of shareholders. Therefore, the remunerations of the Directors and the Corporate Auditors are under oversight by shareholders. The remuneration amount for each Director is determined by the Company's Representative Directors who are delegated to do so by the Board of Directors, and the amount of remuneration for each Corporate Auditor is determined upon discussions amongst the Corporate Auditors. Bonuses given to Directors and/or Corporate Auditors must be approved as a part of the allocation of profit with respect to the relevant fiscal year, at an ordinary general meeting of shareholders of the Company. Retirement allowances given to retiring Directors and/or Corporate Auditors must be approved at a general meeting of shareholders of the Company and will be granted within a specified range according to the prescribed Company's

standard.

## **Risk management, internal control and compliance**

### (1) Risk management

- In order to continuously maximize the corporate value of the Company on a long-term basis in the rapidly changing management environment, it is important to control the various business risks to which the Company is exposed. The Company has organized a "Risk Management Committee" that discusses possible hazards disruptive to the implementation and execution of business/management plans and takes measures against the material risks involved in decision-making of business strategies at the meetings discussing the business/management plans.
- Risks associated with the environments and other matters are discussed and managed by a Environment and Quality Management Committee and various other cross-organizational committees of the Company, respectively.

### (2) Establishment of internal control systems for financial reporting and disclosure

- In order to ensure the reliability of the Company's financial reporting, the Company worked on documenting the appropriate systems and procedures in operations from the control environment up to actual internal control activities, and check on how requisites are observed (or the effectiveness of internal controls) under the overall supervision of the "Internal Audit and Management Advisory Department." The Company will reinforce its internal controls by implementing self-assessment at all organizational units throughout the Nidec Group. Furthermore, in order to ensure and enhance the transparency and accountability of its business, the Company has also established a "Disclosure Control Committee" with which it is confirming the proper function and effectiveness regarding disclosure controls and procedures.

### (3) Compliance

- The Company has developed a management system for compliance. In May 2003, the Company established the "Compliance Office" in order to educate and conduct monitoring of corporate ethics.